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BOEING
AIRPLANE COMPANY

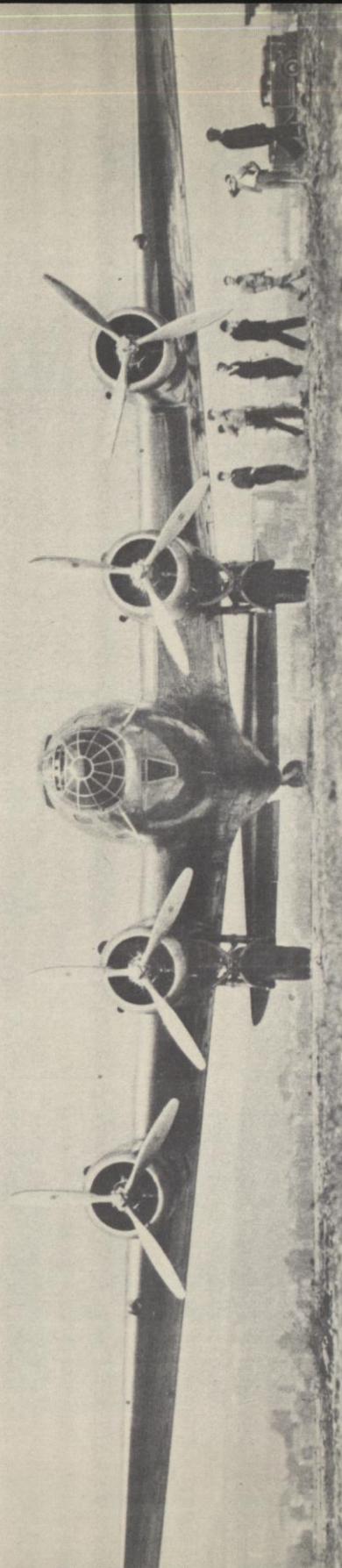
and

SUBSIDIARY COMPANIES



REPORT TO STOCKHOLDERS

YEAR ENDED DECEMBER 31, 1935



BOEING MODEL 299

Four-engined, High Speed Long Range Army Bomber. The most powerful weapon yet developed for national defense.

To the Stockholders of Boeing Airplane Company:

Submitted herewith are the Consolidated Balance Sheet of your Company and its subsidiaries, as of December 31, 1935, and a Consolidated Profit and Loss Statement for the year 1935.

The stock ownership of your company in its subsidiaries remains the same as reported last year.

Activities of Subsidiaries

BOEING AIRCRAFT COMPANY

The twentieth anniversary of this subsidiary will occur July 22 of this year. Its success in aircraft manufacturing and its substantial contributions to the progress of aviation justify its slogan — "Boeing Builds Tomorrow's Airplanes Today." A few of the successful aircraft designed and constructed by this subsidiary are shown in chronological sequence in the picture on the final page of this report. The outstanding development, presented during the year, was the Boeing "Model 299" four-engined, all metal, bombardment airplane. This airplane, a picture of which is shown at the beginning of this report, was built to submit to the Government in a competition for bombardment airplanes last August. The airplane was designed, constructed, tested and delivered in less than one year. No effort was spared to make it the most advanced type of defensive aircraft. By reason of its speed, range, defensive armament, ease of control, size and load carrying ability, the airplane has no equal among present day military aircraft. When the tests at Seattle were completed, the airplane, carrying only the normal fuel supply, was flown non-stop to Dayton, Ohio, an airline distance of 2,040 miles, in nine hours, a convincing demonstration of its remarkable performance.

After approximately two months of inspection and testing, the airplane was totally destroyed by an unfortunate accident just prior to the final flight test and evaluation for the competition. This eliminated the airplane from the competition since all the requirements set forth in the Government circular advertisement could not be completed. However, the design and performance qualities were so outstanding that it merited the award of an order for thirteen airplanes and spares. This order was received late in the year and the first deliveries are scheduled for the fall of this year. The airplane is expected to be a formidable contender in competition for additional business.

In addition to "Model 299," the Boeing Aircraft Company has several other designs of both military and commercial airplanes under investigation and development. These have been selected with a view to future business possibilities.

The company's representatives investigated sales possibilities in several foreign markets and during the year a limited number of airplanes were sold.

BOEING AIRCRAFT OF CANADA LIMITED

In our report of a year ago you were advised that consideration was being given to the possible liquidation of Boeing Aircraft of Canada, Ltd., the stock of which is principally owned by Boeing Aircraft Company. After careful study of the situation your directors concluded that it was advisable, for the time being, to continue the operations of the Canadian company. The management was changed and the operating overhead was substantially reduced. At the time this report is written, this subsidiary has a greater volume of unfilled orders on hand than at any time in recent years. This business consists almost entirely of small boat construction and overhaul. It is too early to predict whether or not the improvements made will make profitable operation possible.

Complying with New York Stock Exchange requirements, you are advised that as of January 1, 1935 the following changes in depreciation rates were made respecting Boeing Aircraft of Canada, Ltd.:

	<i>Old Rate</i>	<i>New Rate</i>
Wharves and Ways.....	15%	7½%
Aircraft Machinery	10%	5%

THE STEARMAN AIRCRAFT COMPANY

This subsidiary has been principally engaged in the manufacture of training airplanes. The order for forty-one training airplanes, for the United States Navy, obtained in 1934, was completed, and an additional order of twenty airplanes of the same type is now being manufactured. This company also designed and developed another training airplane which won the United States Army Air Corps competition for this type, resulting in an initial order for twenty-six airplanes. This is the first order ever received by the subsidiary from this department of the Government.

The foreign markets have been productive of a small amount of business for the Stearman Company, limited numbers of training airplanes having been sold to the Argentine, Mexico and the Philippine Constabulary.

It is probable that, during the year 1936, Boeing Airplane Company will acquire all the assets of Boeing Aircraft Company, thereby eliminating the latter company. Such a step will result in some saving in taxes. However, this consolidation will not result in a saving of management costs, as the officers and directors of the Boeing Airplane Company, being also officers and directors of Boeing Aircraft Company, have served without compensation.

Although the consolidated financial statement shows a loss for the year 1935, the average monthly loss was about half of that reported last year. The loss incurred was primarily due to the small volume of business on hand during the greater part of 1935. In this connection it should be observed that the unfilled orders of this Company's subsidiaries on December 31 were very substantially greater than on January 1, 1935:

Unfilled Orders, January 1, 1935.....	\$ 774,242.82
Unfilled Orders, December 31, 1935.....	6,141,203.23

The increased operating efficiency demonstrated by large multi-engined aircraft has established a trend for both military and commercial uses. In order to be properly prepared to assemble large aircraft in a most efficient manner, your directors concluded that additional factory space should be developed. Accordingly, Boeing Aircraft Company has acquired approximately twenty-eight acres of ground adjoining Boeing Field, a public airport. In addition to airport facilities this site has rail and water-way connections. Present plans call for the construction of a modern assembly building during the year. These plans for improved facilities will not require additional capital.

The University of Washington, in Seattle, now has under construction a large high-speed wind tunnel. This will make available an excellent laboratory for advanced aerodynamic research and testing. The Boeing Aircraft Company has entered into a rental contract with the University for part-time use of this tunnel. This arrangement will prove to be of great assistance to the Company in the development of advanced design.

The airplanes which your Company has under design and construction are outstanding in performance and quality. With a continuing development program and an increased volume of orders on hand, your directors look forward to the future with confidence.

By order of the Board of Directors.

C. L. EGTVEDT,
President.

BOEING AIRPLANE COMPANY

CONSOLIDATED

December

ASSETS

CURRENT ASSETS:

Cash \$ 714,418.78

Notes and Accounts Receivable:

Trade Accounts Receivable \$ 211,384.69
Claims Pending, Sundry Accounts and Accrued Interest 15,690.27Less—Reserve for Doubtful Accounts \$ 227,074.96
11,944.07 215,130.89

Inventories:

Raw Materials and Supplies, Work in Process and Finished Products, Less Reserve \$61,931.04, at substantially the lower of cost or market \$ 234,971.16

Contracts in Progress, less Reserve \$13,359.80, valued at the lower of cost or selling price for estimated percentage completed, less progress payments received of \$89,364.15

TOTAL CURRENT ASSETS \$2,279,823.55

NOTES AND ACCOUNTS RECEIVABLE

MATURING AFTER 1936 10,050.00

INVESTMENTS AND OTHER ASSETS:

Miscellaneous Stocks and Mortgages, less reserve \$36,171.64 34,405.00

FIXED ASSETS:

Property and Equipment, at cost:

Land and Buildings \$1,016,655.29
Machinery, Tools and Equipment 708,347.66Less—Reserve for Depreciation \$1,725,002.95
688,651.43

\$1,036,351.52

Land, Buildings and Equipment of The Stearman Aircraft Company, constructed in 1930, and written down in 1931 to estimated realizable value, less reserve for depreciation \$41,858.03

134,778.01 1,171,129.53

INTANGIBLES:

Patents \$ 9,142.93
Less—Reserves 9,142.93

DEFERRED CHARGES:

Prepaid Rent \$ 26,523.74
Unexpired Insurance, etc. 13,893.29
\$3,535,825.11

The preferred dividends (6% cumulative) of Boeing Aircraft of Canada Limited to \$30.50 per share at December 31, 1935. The total unpaid cumulative dividends on amounted to \$10,217.50 for which no provision has been made in the foregoing state

* Of the authorized Capital Stock, 28,946 1/8 shares are issuable, jointly with share upon the exercise of stock purchase warrants of United Aircraft & Transport Corpora

** The plan of reorganization of United Aircraft & Transport Corporation provi shares of its capital stock to be distributed to stockholders of United Aircraft & Tran pany for cancellation. Of the 521,883 shares a total of 491,365 1/4 shares were issued issued.

CONTINGENT LIABILITY: Under guaranty of Boeing Airplane Company, join port Corporation, of all liabilities known and unknown, of United Aircraft & Transp On August 31, 1934, the date of reorganization, a fund was established in an amount contingent claims under an agreement that the guarantor corporations would share a at August 31, 1934, viz., 14.1155%, 55.0728% and 30.8117%, respectively. From the will be required to contribute approximately \$15,000.00 as its proportionate share of

AND SUBSIDIARY COMPANIES

BALANCE SHEET

31, 1935

LIABILITIES

CURRENT LIABILITIES:

Bank Overdrafts	\$ 3,037.83
Note Payable—Bank	6,000.00
Accounts Payable	104,181.99
Accrued Wages, Taxes, etc.....	110,565.71

\$ 223,785.53

ADVANCES ON SALES CONTRACTS

66,670.74

RESERVES:

For Insurance	\$ 26,921.34
For Contingencies	12,133.17

39,054.51

MINORITY INTEREST:

Boeing Aircraft of Canada Limited.	
Preferred Stock—Series A—335 Shares.....	\$ 33,500.00
Common Stock—960 Shares	741.53

TOTAL CAPITAL STOCK	\$ 34,241.53
Minority Proportion of Deficit.....	34,241.53

CAPITAL STOCK AND SURPLUS:

Capital Stock:	
*Authorized 600,000 Shares of \$5.00 par value	
**Issued or to be issued 521,883 Shares.....	\$2,609,415.00
Capital Surplus	1,111,020.73
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Earned Surplus (Deficit)	\$3,720,435.73
	514,121.40
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	3,206,314.33

\$3,535,825.11

were paid to December 1, 1930, and the unpaid cumulative dividends amounted to the minority interest of 335 shares of preferred stock at December 31, 1935, amount.

s of United Air Lines Transport Corporation and United Aircraft Corporation, if exercised on or before November 1, 1938.

ded, in part, that the Boeing Airplane Company would issue a total of 521,883 shares of United Air Lines Transport Corporation upon surrender of their stock certificates in the latter company and outstanding at December 31, 1935, and 30,517 3/4 shares were still to be

only and severally with United Aircraft Corporation and United Air Lines Transport Corporation and The United Aircraft & Transport Corporation (of Conn.). believed to be sufficient to pay known liabilities, reorganization expenses and any unrequired balance, or deficiency, in proportion to their relative net worth information available at this date it appears that the Boeing Airplane Company the anticipated deficiency.

March 9, 1936.

BOEING AIRPLANE COMPANY
AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account

Year ended December 31, 1935

Gross Sales, Less Discounts, Returns and Allowances.....	\$1,236,517.77
Cost of Sales.....	\$1,213,382.77
Engineering and Development Expense.....	35,279.49
Selling, General and Administrative Expenses	249,213.41
Provision for Doubtful Accounts.....	3,500.00
Depreciation	86,152.51
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OPERATING LOSS	\$ 351,010.41
Other Income:	
Interest	\$ 9,979.66
Sundry	10,669.43
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	\$ 330,361.32
Income Deductions:	
Sundry	3,438.30
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NET LOSS FOR THE YEAR.....	\$ 333,799.62

CONSOLIDATED EARNED SURPLUS ACCOUNT

Year ended December 31, 1935

DEFICIT—January 1, 1935.....	\$225,977.15
ADD:	
Net Loss for Year, as above.....	333,799.62
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	\$559,776.77
DEDUCT:	
Recoverable Engineering and Development Costs Charged to Expense in Prior Year.....	45,655.37
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DEFICIT—December 31, 1935.....	\$514,121.40

AUDITOR'S CERTIFICATE

BOEING AIRPLANE COMPANY,
SEATTLE, WASHINGTON.

We have made an examination of the Consolidated Balance Sheet of BOEING AIRPLANE COMPANY and its subsidiary companies as at December 31, 1935, and of the Consolidated Profit and Loss and Surplus Accounts for the year ended that date. In connection therewith we examined or tested accounting records of the companies, and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the period, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Consolidated Balance Sheet and related statements of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the period under review, their combined position at December 31, 1935, and the results of their operations for the year ended that date.

ALLEN R. SMART & CO.
Certified Public Accountants.

SEATTLE, WASHINGTON
February 26, 1936.

BOARD OF DIRECTORS

WILLIAM M. ALLEN of Messrs. Todd, Holman & Sprague	FRED P. LAUDAN Superintendent of Boeing Aircraft Company
HAROLD E. BOWMAN <i>Secretary and Treasurer</i> Secretary and Treasurer of Boeing Aircraft Company	CHARLES N. MONTEITH <i>Vice-President</i> Executive Vice-President of Boeing Aircraft Company
GARDNER W. CARR <i>Vice-President</i> Vice-President of Boeing Aircraft Company	ERIK H. NELSON of Seattle, Washington
CLAIRE L. EGTVEDT <i>President</i> President and General Manager of Boeing Aircraft Company	DIETRICH SCHMITZ President Washington Mutual Savings Bank

OFFICERS

CLAIRE L. EGTVEDT.....	<i>President</i>
CHARLES N. MONTEITH.....	<i>Vice-President</i>
GARDNER W. CARR.....	<i>Vice-President</i>
JAMES P. MURRAY.....	<i>Vice-President</i>
HAROLD E. BOWMAN.....	<i>Secretary and Treasurer</i>

GENERAL COUNSEL
TODD, HOLMAN & SPRAGUE

GENERAL AUDITORS
ALLEN R. SMART & Co.

TRANSFER AGENT
CITY BANK FARMERS TRUST COMPANY, NEW YORK

REGISTRAR
THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

PROGRESS

THE FIRST BOEING PLANE— A TWO-PLACE TRAINER SEAPLANE.	1916
BOEING FLYING BOAT OPERATED IN THE FIRST U. S. CONTRACT AIR MAIL SERVICE.	1919
MB-3A—ARMY PURSUIT PLANE.	1921-22
FB-5—CARRIER-TYPE NAVY FIGHTER.	1926-27
F3B-1—NAVY CARRIER FIGHTER, WITH AIR- COOLED ENGINE.	1927-28
40-B4—FOUR-PASSENGER MAIL PLANE.	1929
80-A—TRI-MOTORED “PIONEER PULLMAN OF THE AIR.”	1929-30
ARMY TYPE P12-C—NAVY TYPE F4B-2—PURSUIT PLANE.	1930-31
MONOMAIL—THE FIRST SUCCESSFUL TRANSPORT WITH RETRACTABLE LANDING GEAR.	1931-32
Y1B-9A—ALL-METAL, TWIN- ENGINED BOMBER.	1931-32
281—P-26-A—SINGLE SEATER ALL-METAL FIGHTER.	1933-35
247-D—HIGH-SPEED ALL- METAL TWIN-ENGINE COMMERCIAL TRANSPORT.	1933-35
299—FOUR-ENGINED BOEING BOMBER, THIRTEEN OF WHICH ARE NOW UNDER CONSTRUCTION.	1935

